

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 STR-04 COME-00 ITC-01 TRSE-00  
OMB-01 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00  
NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SIL-01 LAB-04  
/071 W

-----101146Z 103817 /11

P R 101030Z MAR 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 448

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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EO 11652 NA

TAGS ETRD EFIN BR

SUBJECT: AMBASSADOR'S MEETING WITH REPRESENTATIVES OF BRAZILIAN  
SHOE INDUSTRY

1. A DELEGATION OF EIGHT BRAZILIAN SHOE REPRESENTATIVES, HEADED  
BY CLAUDIO STRASSBURGER, SECRETARY OF INDUSTRY AND COMMERCE, RIO  
GRANDE DO SUL, MET WITH THE AMBASSADOR TODAY (MARCH 9) TO PRESENT  
THE INDUSTRY'S CASE AGAINST THE ITC'S RECOMMENDATION TO THE PRESI-  
DENT TO IMPOSE A TARIFF-QUOTA ON SHOE IMPORTS. THE GROUP LEFT  
A WRITTEN MEMORANDUM WHICH WILL BE TRANSMITTED BY SEPTTEL.

2. SPEAKING ON BEHALF OF THE GROUP, STRASSBURGER MADE THE FOLLOWING  
MAJOR POINTS:

A. THE COMPETITIVE ADVANTAGE OF BRAZILIAN SHOES IN THE US MARKET  
HAS BEEN CRITICALLY AFFECTED BY US TRADE RESTRICTIONS.

ACCORDING TO STRASSBURGER, TWO FACTORS WERE  
RESPONSIBLE FOR THE LOSS OF COMPETITIVENESS:

THE IMPOSITION OF COUNTERVAILING DUTIES IN 1974 AND THE  
WITHDRAWAL OF THE ICM CREDITS ON JANUARY 1, 1977, FOLLOWING

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THE SIMON-SIMONSEN AGREEMENT OF MAY 1976.

B. THE THREAT OF A TARIFF QUOTA HAS ALREADY RESULTED IN A  
CONSIDERABLE DROP IN EXPORTS DURING THE FIRST TWO MONTHS OF  
1977. IN RIO GRANDE DO SUL SALES WERE DOWN 47 PERCENT AND IN  
SAO PAULO 20-25 PERCENT.

C. THE IMPOSITION OF A TARIFF-QUOTA WOULD "VIOLENTLY AFFECT" THE SHOE INDUSTRY, LEADING TO MASSIVE UNEMPLOYMENT--NOT ONLY IN SAO PAULO AND RIO GRANDE DO SUL, WHERE THE INDUSTRY IS CONCENTRATED, BUT ALSO IN THE NORTH AND NORTHEAST WHICH SUPPLY THE LEATHER. ACCORDING TO STRASSBURGER, 40,000 IN RIO GRANDE DO SUL ALONE ARE EMPLOYED BY THE SHOE INDUSTRY.

D. THE TARIFF-QUOTA DISCRIMINATES AGAINST BRAZIL, WHOSE SHARE OF THE US MARKET HAS BEEN RISING, IN FAVOR OF ITALY AND SPAIN, WHOSE SHARES HAVE BEEN DECLINING.

E. FINALLY, STRASSBURGER BELIEVED THAT THE ADOPTION OF THE IC RECOMMENDATION WOULD FURTHER AGGRAVATE US-BRAZILIAN RELATIONS AND PRODUCE ANTI-AMERICAN SENTIMENT.

3. THE AMBASSADOR EXPRESSED APPRECIATION FOR THE PRESENTATION AND INDICATED HE WAS ALREADY AWARE OF MANY OF THE POINTS MADE, HAVING FOLLOWED THIS WHOLE ISSUE CLOSELY FROM THE VERY BEGINNING. HE THEN GAVE A BRIEF SUMMARY OF THE HISTORY OF THE ITC INVESTIGATION, AND A STATUS REPORT. HE NOTED THAT AN INTER-DEPARTMENTAL COMMITTEE WAS REVIEWING THE CASE WITH THE OBJECTIVE OF ASSESSING ALL OF ITS DOMESTIC AND FOREIGN RAMIFICATIONS. THE AMBASSADOR ASSURED THE GROUP THAT THEIR POSITION, WHICH WOULD BE REPORTED FAITHFULLY TO WASHINGTON, WOULD BE AN IMPORTANT ELEMENT IN THE INTER-DEPARTMENTAL COMMITTEE'S DELIVERATIONS BUT STRESSED THAT HE COULD NOT PROMISE IT WOULD BE A DECISIVE FACTOR.

4. STRASSBURGER TRIED TO ARGUE THAT THE PROBLEM OF THE US SHOE LIMITED OFFICIAL USE

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INDUSTRY IS A CYCLICAL ONE AND THAT IMPORTS WERE NOT THE ROOT CAUSE OF ITS DIFFICULTIES. THE AMBASSADOR NOTED THE PRECARIOUS SITUATION OF THE US SHOE INDUSTRY WITH ITS ABOVE-AVERAGE UNEMPLOYMENT RATE AND THAT, IN FACT, THE ITC HAD ON BOTH OCCASIONS CONCLUDED THAT IMPORTS WERE A MAJOR CAUSE OF INJURY UNDER THE TERMS OF THE TRADE ACT. HE SAID THE FACT THAT IMPORTS WERE ACCOUNTING FOR MORE THAN 50 PERCENT OF THE US MARKET HAD BEEN A CRUCIAL FACTOR WHICH HAD LED THE SENATE FINANCE COMMITTEE TO ASK THE ITC FOR A SECOND INVESTIGATION.

5. THE MEETING WAS CORDIAL THROUGHOUT. JUDGING BY THEIR COMMENTS TO THE REPORTERS WHO AWAITED THE DELEGATION IN THE LOBBY OF THE EMBASSY, THE GROUP WAS PLEASED WITH HAVING HAD THE OPPORTUNITY TO PRESENT ITS CASE TO THE AMBASSADOR. STRASSBURGER, OF COURSE, GAVE ONLY HIS SIDE OF THE STORY TO REPORTERS. USIS IS DRAFTING A PRESS RELEASE TO BALANCE IT.  
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